

Monthly Economic Bulletin

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I. MONEY AND BANKING

Money Supply

Total money supply (M3) increased by 1.8% to \$3,108 million following a 2% rise in the previous month. Driving the increase in M3 was the rise in narrow money (M1) and other deposits (savings and time). M1 increased by 2.3% to \$2,465 million compared to 2% rise in October. The rise in M1 was due to a 4% increase in currency in circulation and 2% rise in demand deposits. Other deposits went up negligibly from \$643 million to \$644 million at the end of November driven mainly by 1% rise in time deposits.

Net Foreign Assets

Total net foreign assets (NFA) of the banking system fell by 0.5% to \$3,640 million this month, following a 3% growth in October. The drop in NFA was mainly driven by commercial banks' NFA that fell from \$106 million to \$72 million, reflecting declines in their foreign assets over their foreign liabilities. Meanwhile, CBSI's NFA slightly increased by 0.4% to \$3,553 million this period compared to the 0.7% rise in the previous month.

Domestic Credit

Net domestic credit decreased by 11% to \$81 million compared to 13% fall in the previous month. The fall came mainly from CBSI's net credit to government (NCG) which moved from net liabilities of \$1,214 million in October to net liabilities of \$1,276 million combined with the 18% decline in net liabilities of other depository corporations (ODCs). This resulted from a continuous build-up of government deposits in the banking system during the period.

Meanwhile, private sector credit went up by 2% to \$1,438 million.

Liquidity

Total liquidity in the banking system rose 1% to \$1,286 million, following a 3% drop in the previous month. The increase was mainly attributed to the buildup in the NFA of CBSI combined with an increase in other items net that came on the back of growth in other domestic assets of CBSI. In addition to that, under subscriptions by commercial banks in Bokolo bills contributed to the increase in their call account balances with CBSI. Hence, free liquidity went up by 1% to \$1,069 million at the end of November.

Domestic Market Operations

CBSI, on behalf of the Government, continues to facilitate the auction of treasury bills. In November 2013, a total of \$8 million worth of treasury bills was floated in the domestic market, a fall of \$3 million from the previous month. Total bids of around \$19 million were received, of which \$8 million were accepted and the rest rejected. The weighted average yield for the maturity terms of 56 and 91 days continued to drop further this month from 0.29% and 0.34% to 0.27% and 0.29% respectively, while that for 182 days moved from 1.21% to 1.22%.

CBSI floated \$640 million worth of Bokolo bills during the month, a \$30 million increase from the previous month. Of this amount, commercial banks absorbed \$540 million worth of Bokolo bills compared to \$525 million a month ago. Over the same period, the weighted average yield for the 28-day bill remained unchanged at 0.55%.

II. BALANCE OF PAYMENTS

Trade in Goods

The provisional balance on trade in goods widened to a deficit of \$42 million from a deficit of \$36 million in the previous month. This was due to a relatively larger fall in exports (f.o.b) by 7% to \$259 million compared to a 4% fall in imports (f.o.b) to \$301 million.

The weak performance in exports during the month was driven by declining export receipts from all the major commodity exports except for minerals and cocoa. Round log exports dropped by 6% to \$139 million and fish exports by 4% to \$31 million. These negative outcomes resulted from lower production and falling international prices. Palm oil exports fell by 8% to \$18 million due to lower production during the month. Copra and coconut oil exports slid to \$2 million from \$3 million as lower coconut oil were shipped during the month. Sawn timber exports also fell from \$9 million to \$5 million and other exports from \$5 million to \$2 million. However, mineral export rose slightly to \$53 million from \$52 million despite the fall in gold prices and was factored mainly by higher exported gold volumes. Cocoa exports rose to \$6 million from \$5 million due to the continued upward trend in cocoa international prices. Re-exports meanwhile, remained unchanged at \$4 million.

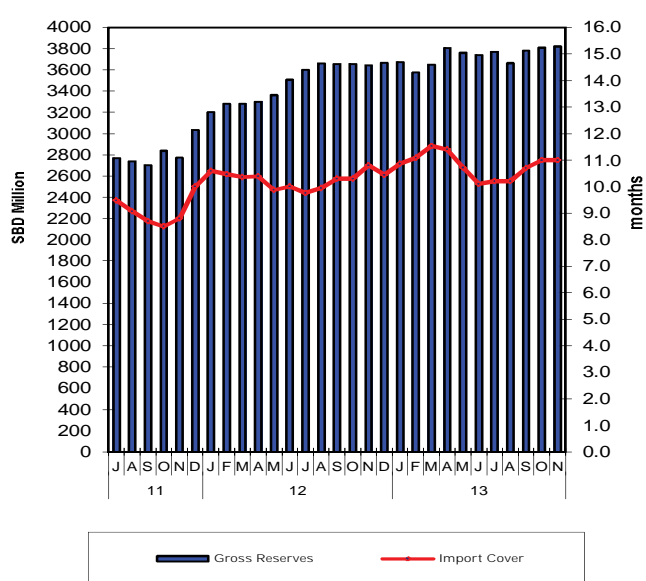
The drop in imports during the month was largely due to the decline in import payments (c.i.f) for food, machinery and transport equipment, and chemicals. Food imports fell significantly as expected by 31% to \$54 million as bulk imports were made in the previous month. Machinery and transport equipment lowered by 18% to \$74 million, chemical imports fell by 16% to \$17 million and beverage and tobacco slid from \$7 million to \$6 million during the month. Meanwhile, mineral fuel payments grew by 22% to \$95 million on the back of higher volumes of

fuel imports. Basic manufactures went up by 24% to \$59 million while miscellaneous items also increased marginally by 6% to \$28 million.

Gross Foreign Reserves

The level of gross foreign reserves in November grew by less than 1% to \$3,820 million. This resulted from higher donor and fishing licensing inflows which outweighed the exchange rate revaluation losses incurred during the month. This level of reserves is sufficient to cover 11.0 months of import cover.

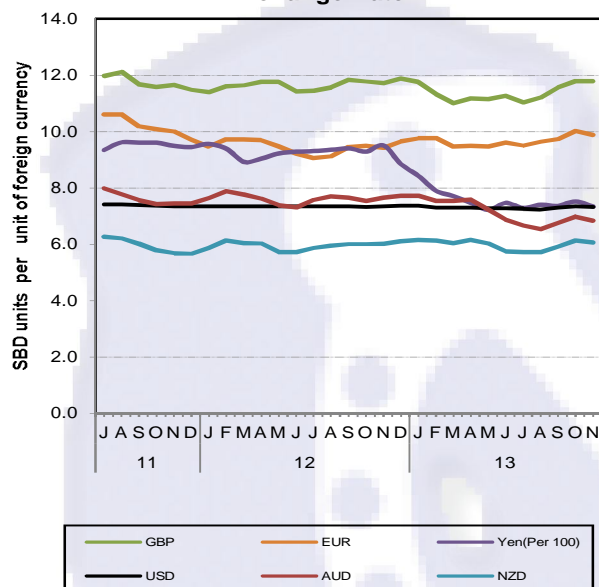
Figure 1
Gross International Reserve & Import Cover



Exchange rate

The Solomon Islands dollar (SBD) on average strengthened against the United States dollar and Australian dollar during the month. The SBD appreciated against the United States dollar by 0.4% to \$7.33 per USD and 2.2% against the Australian dollar to \$6.84 per AUD. The SBD also appreciated against the Japanese Yen by 2.6% to \$7.34 per 100JPY, 1.4% against the Euro to \$9.88 per EUR, and 1.3% against the New Zealand dollar to \$6.06 per NZD. Meanwhile the SBD remained stable against the British pound at \$11.79 per GBP during the month.

**Figure 2
Exchange Rate**



III. GOVERNMENT FINANCE

The overall fiscal position (including grants) for October narrowed to a deficit of \$10 million following the \$46 million deficit anticipated for the month. The improvement came as a result of combined fall in total expenditure and revenue to \$242 million and \$231 million against their respective budgets of \$301 million and \$255 million. Meanwhile, public debt stock at the end of November stood at \$951 million.

Revenue

Total revenue collection in October was \$231 million, 10% below the month's budget. The decrease in overall revenue was driven by lower-budget collection in Non-Tax Revenue (NTR) from other government ministries. However, Inland Revenue Division (IRD) and Customs and Excise Division (CED) collected more than the expected amounts for October.

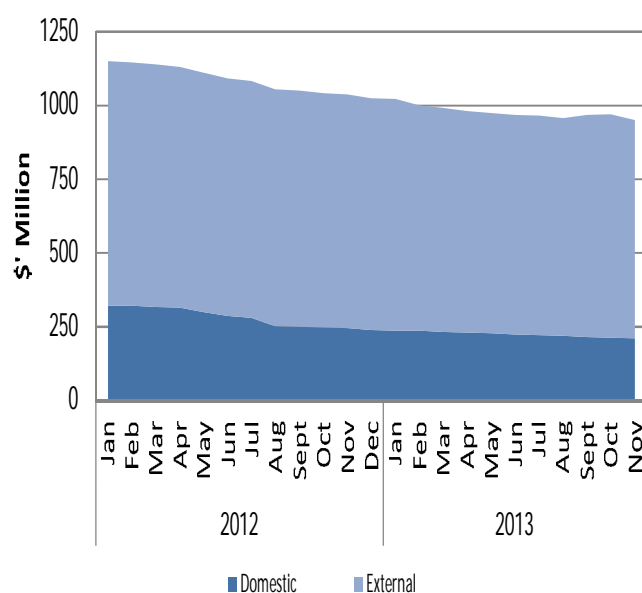
IRD continued to show an uptick against the budget of \$129 million in October to \$147 million, but was 20% lower than the previous month. Underpinning the increases in IRD collection were company tax and goods tax. Company tax exceeded the budget by \$14 million to \$35 million and was due to a couple of large payments worth \$20 million that were received during the month.

Goods tax surpassed the budget of \$55 million to \$64 million. Personal income taxes, on the other hand, dampened 13% against the budget to \$29 million.

Revenue collected by CED in October went up against the budget by 15% to \$77 million. The strong budget performance was driven primarily by the 28% surge in import duties to \$24 million. The 12% increase in log duties to \$37 million on the back of increase export volume also attributed to the higher budget performance. Excise duties also increased by 7% to \$14 million owing to increase duty receipts on beer and tobacco. On the other hand, export duties slipped by 2% against the budget to \$2 million.

NTR in October was \$7 million compared to \$18 million expected on a pro rata basis. The overseas fishing licences collected by the Ministry of Fisheries and Marine Resources, although, waned by \$9 million against the budget to \$2 million, still accounted for 25% of the total NTR collection.

Figure 3. Public Debt



Expenditure

Total government expenditure was at 20% below the revised budget to \$242 million. The fall represents tighter spending across all the government major spending categories except for payroll.

Payroll rose by 20% against the budget to \$76 million, underpinned by a \$16 million increase in spending by the Ministry of Education and Human Resources Development (MEHRD) to \$42 million. The \$2 million rise in spending to Ministry of Police and National Security (MPNS) to \$8 million also contributed to the increase. All other ministries, however, registered budget savings during the month.

Spending on goods and services weakened by 7% to \$103 million in October. Despite this, total purchase of goods and service was 27% higher relative to the revised budget of \$111 million. The below-budget performance was seen in the MEHRD which saved around \$12 million to \$19 million. The National Parliament, however, exceeded budget by \$4 million to \$7 million in the reviewed period.

Development expenditure continued to track below budget since August 2013, dropping by 37% to \$47 million. Compared to the previous month and same month last year, development expenditure was down by 26% and 21%, respectively.

SIG Debt Stock & Servicing

Total public debt stock at end of November stood at \$951 million, 2% lower than the previous month. The decrease in the overall debt stock reflected debt servicing of \$6 million during the month which was 3% higher than the repayment schedule. The debt-to-GDP ratio stood at 15%, below by 1% compared to September.

IV. DOMESTIC ECONOMY

Logs

Log exports for November as a proxy to production recorded a 7% fall to 171,682 cubic meters, following a 30% surge in log output in the previous month. Year-to-November underperformed against the same period a year ago by 5% to 1.71 million cubic meters. Despite the fall, log production for the month was 10% above the same month a year ago. In terms of prices, the average international price deteriorated to a year low of USD297 per cubic

meter from USD304 per cubic meter a month ago.

Copra

Based on preliminary estimates, copra output fell significantly by 37% to 770 tons compared to a large increase of 33% in October. This output was the lowest in record and 6% lower than production in the same month a year ago. As a result, total production to November only reached 11,658 tons, 54% below the previous year owing to very low production throughout the year. Contracted prices remain favourable, rising by 4% to USD415 per ton from USD400 per ton in the previous month. Similarly domestic prices received by local farmers strengthened to \$2.80 per kilogram from \$2.67 per kilogram a month ago. This price level is the highest since May 2012.

Cocoa

Cocoa production went down by 6% this month to 324 tons, reversing the 21% increase in October. Comparing against the same month a year ago, this output is 40% below. Despite the low output, cumulative production to-date outperformed the corresponding period in 2012 by 2% to 4,613 tons. Meanwhile, the average contract price for cocoa declined negligibly by 1% to GBP1,449 per ton from GBP1,459 per ton in the previous month. Similarly average domestic price for cocoa dropped insignificantly to \$13.40 per kilogram.

Palm Oil

Palm production weakened against the previous month with fresh fruit bunches falling by 8% to 11,842 tons. As a result crude palm oil and kernel oil went down by 6% and 11% to 2,750 tons and 277 tons respectively. Compared to the same period a year ago, crude palm oil contracted by 6% whilst kernel oil output dropped by 7%. Consequently, year-to-November palm and kernel oil output dropped by 1% and 9% against the corresponding period in 2012 to 29,392 tons and 2,920 tons respectively. Meanwhile contract export prices for crude palm oil and kernel oil continued to improve for the third consecutive month. Export price for crude palm oil increased by 6% to USD929 per ton while palm kernel oil improved by 7% to USD1,282 per ton.

Fish

Fish catch plunged by 32% to 2,177 tons, after a 15% increase recorded in the previous month. The low fish catch during the month was due to the spawning season. Compared against same month a year ago, output was down by 13%. Similarly year-to-date catch of 22,398 tons was 18% below the corresponding period in 2012. Meanwhile, the average international fish price recorded a fifth consecutive fall this month, weakening by 2% to USD1,759 per ton.

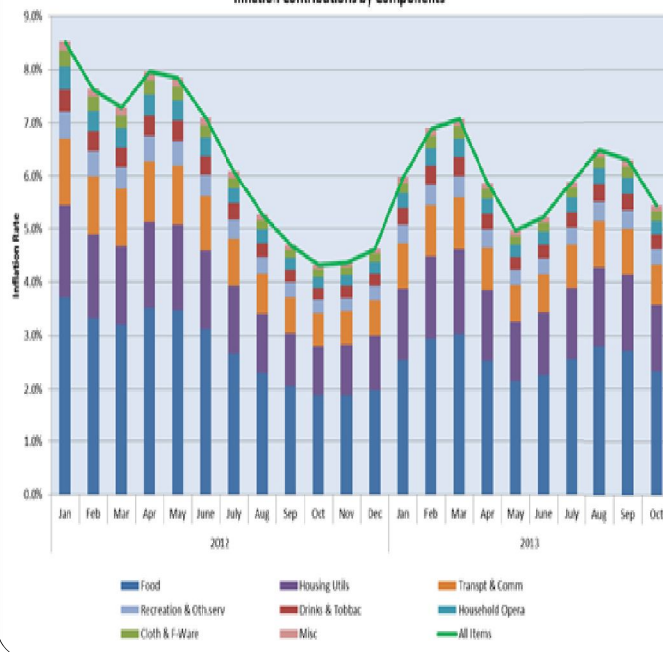
Minerals

Gold production increased by 4% to 5,569 ounces (oz), consolidating the 20% surge in the previous month. Against the same period in 2012, gold output was 8% above. Similarly, silver output rose by 10% to 2,174 oz against 1,974 oz in the preceding month. However, in terms of total production to date, gold and silver underperformed by 15% to 54,508 oz and by 25% to 20,941 oz respectively. International prices for gold remained low, dipped further by 3% to USD1,276 per oz. On the same note, international prices for silver declined by 4% to USD21.00 per oz.

Inflation and Honiara Retail Fuel Prices

Headline Inflation for October as measured by the three months moving average (3mma) eased by 0.8% to 5.5% compared to 6.3% in September. The slowdown came from both the imported and domestic categories. The imported components except transport and communication drove imported inflation rate down from 1.5% to 0.6%. Meanwhile, easing pressure from transport and communication and housing utilities in the domestic category led to a slight drop in domestic inflation to 9.6% to 8.8% a month ago. In terms of contributions to the overall inflation rate, the main driver was food inflation which accounted for 2.3%, followed by housing and utilities with 1.3%, transport and communication with 0.7%. Meanwhile the remaining components accounted for less than 0.5% each to the overall inflation for the month.

Figure 4
Inflation Contributions by Components



The average fuel prices in Honiara for November slowed down by 2% to \$11.23 per litre from \$11.50 per litre in the previous month, reflecting weaker prices across major fuel categories. Average diesel price fell by 70 cents to \$11.18 per litre from \$11.88 per litre, petrol prices dropped, although marginally by 10 cents to \$10.87 per litre. Meanwhile average price for kerosene remained at \$11.73 per litre for November.

Figure 5
Honiara Fuel Prices

